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SIPDIS

DEPT FOR EB/TP/MTA/MST - AWHITTEN
COMMERCE FOR ITA/OTEXA/MARIA D'ANDREA
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E.O. 12958: N/A

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SUBJECT: Suggested Services Market Access Priorities

Ref: State 270998

Not for Internet Distribution.

1. As requested reftel, Embassy has ranked market access priorities for Turkey's services sectors. We have also consulted with the local American business chamber on these priorities. Rank 1 are the highest priorities and 5 are the lowest. In addition, market openness is rated as high, medium or low. Supplemental information on selected sectors follows the ranking.

2. Services Rankings:

Sectors with Rank 1

Engineering and integrated engineering services (high)
Computer and related services (high)
Energy services (medium)
Telecommunications Services (medium)
Construction and related engineering (high)
Tourism and travel related services (high)
Banking and financial services (medium)
Educational services (medium)
Mining (medium)
Courier services (high)

Sectors with Rank 2

Insurance services (medium)
Legal services (medium)
Accounting, auditing and bookkeeping (medium)
Real Estate services (high)
Rental/Leasing services (high)
Management consulting services (high)
Distribution Services
Environmental services (medium)

Sectors with Rank 3

Architectural services (medium)
Placement and supply services of personnel (medium)
Investigation and security (low)
Entertainment services (high)
Technical testing and analysis services-including energy testing (high)
Maintenance and repair of equipment (medium)
Printing and publishing (medium)

Sectors with Rank IV

Research and Development services (medium)
Advertising services (medium)
Scientific and technical consulting services (high)
Convention services (high)
Urban Planning

Sectors with Rank V

Taxation services (low)
Building cleaning services (medium)
Photographic services (high)
Packaging services (high)
Market Research

3. Banking: Turkey does not permit private management of social security funds.

4. Telecommunications Services

Turkey has a large telecommunications service market - the 5th largest in Europe and 12th largest in the world. The market size is estimated to be over USD 9 billion and expected to grow to USD 16 billion in 2010.

In 2005, full liberalization of the market should increase the size of the market. The private sector has obtained and will obtain licenses for the introduction of new fixed line telecommunications services in competition with Turk Telecom. Turk Telecom already has to compete with the three GSM

cellular operators, which has an increasing number of subscribers. The competition will create more business both for the private sector and Turk Telecom.

Turk Telecom is the main fixed line telecommunications operator with a subscriber number exceeding 19 million. The Government of Turkey (GOT), plans to privatize 55 percent of the shares of Turk Telecom. The three cellular phone operators, Turkcell, Telsim and Avea exceeded 30 million subscribers, well ahead of the fixed line subscribers. In 2005, Telsim will be sold to interested investors.

Best prospects will be 3G services, ADSL, other broadband applications, VoIP. Over 40 private sector companies have already obtained a license for long distance telephony services. Institutional clients of these companies have already started benefiting from lower rates in long distance international calls and the ones within Turkey. Turkey's strategic location in the Eurasia will play an important role in obtaining revenues from international telephone traffic between Central Asia/Middle East and Europe/USA.

Following are the market size estimates for this sector:

USD millions	2003	2004(Estimated)	2005(Estimated)
a. Total Market Size	6,500	7,500	9,000
b. Total Local Production	5,600	6,000	7,500
c. Total Exports	950	1,000	1,500
d. Total Imports	1,850	2,500	3,000
e. Imports from the U.S.	160	250	300

Note: The above statistics are unofficial estimates. Exchange Rate used: 1USD = TL 1.4

15. Natural Gas Transmission, Distribution, Storage and Trade

As part of the liberalization process in the natural gas (NG) market, the Energy Market Regulatory Agency (EMRA) is issuing license tenders for the distribution, storage and wholesale trading of NG. Most cities are constructing distribution networks to supply gas to industry and homes. One of the major tenders will be NG distribution in Izmir and the other will be privatization of Ankara and Istanbul NG distribution network.

Turkey imported 21 billion cubic meters of NG and LNG from Russia, Iran, Algeria and Nigeria in 2004. The state-owned Turkish Petroleum Pipeline Corporation, BOTAS, recently announced a tender for the transfer of existing long-term purchase contracts to the private sector. Turkey has two pipelines transporting Russian gas to Turkey as well as a pipeline for Iranian gas. Turkey also has two LNG terminals; one in Marmara Ereğlisi and the other in Aliaga, Izmir. The first is owned and operated by Botas and the latter is owned by the private sector, but has not yet received an operating license from EMRA.

BOTAS recently announced a tender to connect the Turkish NG pipeline network to the Greek pipeline network. Projects and negotiations are underway to connect Azeri, Iraqi and Egyptian gas to the Turkish pipeline network to export gas to the other European countries.

USD millions	2003	2004(Estimated)	2005(Estimated)
a. Total Market Size	850	950	1200
b. Total Local Production	250	300	350
c. Total Exports	50	100	150
d. Total Imports	650	750	1000
e. Imports from the U.S.	50	60	90

Note: The above statistics are unofficial estimates. Exchange Rate used 1USD = TL 1.4

16. Franchising

Turkey's franchising sector comprises approximately 150 franchises with more than 1000 outlets. About one-third of the franchisers are foreign businesses. The country's National Franchise Association (UFRAD) estimates the total annual turnover of all franchises in the country at USD1.5 billion in 2002.

The sector is diversifying rapidly from fast foods, into apparel, education, cleaning services, printing, office services, furniture, hardware, real estate, fitness and supermarket chains. A large number of entrepreneurs are regarding franchising as an attractive investment in a somewhat uncertain economy.

There is significant name recognition among Turkish youth for U.S. franchises, especially in urban centers where the country's wealth accumulates.

Market size estimates (USD millions):

	2001	2002	2003	2004
a. Total Market Size	1,700	1,500	1,700	1,900
b. Total Local Production	1,100	1,200	1,400	1,700
c. Total Exports	400	500	700	900
d. Total Imports	1,000	800	1,000	1,100
e. Imports from the U.S.	450	400	470	550

Source: Turkish National Franchise Association's estimates. (Note: sales figures for some franchise operations are not disclosed, and are therefore estimated for all years.)

Exchange rate used: TL 1.4 = USD1

17. Architectural, Construction, and Engineering services

Due to population growth and continued urbanization, Turkey requires an estimated additional 5.5 million housing units by 2010. Added to the existing housing deficit, this represents a requirement for more than 500,000 new housing units to be built each year. Additionally, with a growing economy and rapid urban expansion, there is a need for the construction of more commercial/office/professional buildings. Likewise shopping malls and retail establishments need to be built as consumer spending is increased. Tourism development continues to generate new construction projects. As in other countries the construction industry is highly susceptible to macro economic factors. Government projects, mostly infrastructure projects such as highways, bridges, airports, seaports, etc., have been slowed by the economic crises. Residential and industrial buildings are mostly completed by the private sector. While this portion of the sector is also influenced by the world financial conditions, there is still growth, albeit at a slower rate.

Turkish Architectural/Construction/Engineering (ACE) services are one of the major sectors, which contribute to the exports of the Turkish services sector. According to the Turkish Contractors' Association, Turkish contractors are working in 49 countries across 4 continents. Their market presence is in Southeast Asia, Central Asia and the Caucasus. Some contracts were recently won in India, Morocco, Pakistan, Philippines, Thailand, Malaysia and Indonesia. The next steps could be other ASEAN countries as well as towards Eastern and Southeastern Europe in the framework of the Stability Pact programs. Total work already performed or being performed throughout the world by Turkish contractors is estimated at USD 45 billion. Today, the share of Turkish contracting in international global contracting services is about 2-3 percent. American companies may cooperate with Turkish contractors for opportunities in these regions.

Projects funded by international institutions like the World Bank, European Investment Bank, and the Japanese ICF offer the best prospects for U.S. companies. U.S. ACE firms are highly regarded in Turkey, although they face stiff competition from European and Japanese firms. When possible, U.S. firms should consider joint ventures with Turkish firms to take advantage of low Turkish labor costs and local familiarity with bureaucracy.

Market size estimates (USD millions):

	2001	2002	2003	2004
a. Total Market Size	1,130	1,200	1,240	1,290
b. Total Local Production	1,150	1,200	1,250	1,280
c. Total Exports	220	220	250	270
d. Total Imports	200	220	240	280
e. Imports from the U.S.	42	45	48	52

Source: The above statistics are unofficial estimates provided by sector contacts.

Exchange rate used: TL 1.4 = USD1

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